

TRIMBLE COUNTY WATER DISTRICT #1
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2016 and 2015

**TRIMBLE COUNTY WATER DISTRICT #1
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Trimble County Water District #1
Bedford, Kentucky 40006

Report on the Financial Statements

We have audited the accompanying financial statements of Trimble County Water District #1 as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Trimble County Water District #1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trimble County Water District #1, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

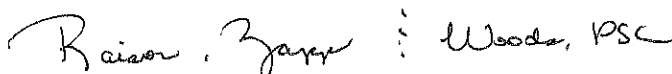
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 22, and the Schedule of District Contributions – County Employees Retirement System on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of the Trimble County Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trimble County Water District #1's internal control over financial reporting and compliance.



RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

June 27, 2017

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash	\$ 228,077	\$ 190,278
Accounts Receivable (Net)	78,443	77,657
Other Receivables	175	5,590
Inventory	67,920	66,751
Prepaid Expenses	12,753	12,039
Total Current Assets	<u>\$ 387,368</u>	<u>\$ 352,315</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 302,766	\$ 302,592
Interest Receivable	40	40
Capital Assets (Net)	3,642,000	3,761,900
Total Noncurrent Assets	<u>\$ 3,944,806</u>	<u>\$ 4,064,532</u>
Total Assets	<u>\$ 4,332,174</u>	<u>\$ 4,416,847</u>
DEFERRED OUTFLOWS OF RESOURCES		
Attributable to Employee Pension Plan	<u>\$ 241,516</u>	<u>\$ 75,032</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 12,377	\$ 7,359
Accrued Compensated Absences	4,636	4,778
Accrued Salaries, Wages & Benefits	9,649	9,165
Accrued Payroll Taxes/Employee Withholding	3,856	4,542
Utility Tax Payable	1,391	1,632
Sales Tax Payable	502	600
Accrued Interest Payable - Customer Deposits	22	22
Accrued Interest Payable - Note Payable	5,363	7,779
Note Payable - Current Portion	21,601	20,761
Current Liabilities Payable from Restricted Assets:		
Revenue Bonds Payable	18,200	17,200
Total Current Liabilities	<u>\$ 77,597</u>	<u>\$ 73,838</u>
Noncurrent Liabilities:		
Note Payable	\$ 721,945	\$ 741,292
Revenue Bonds Payable	1,109,800	1,128,000
Net Pension Liability	354,495	84,334
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	38,316	38,085
Total Noncurrent Liabilities	<u>\$ 2,224,556</u>	<u>\$ 1,991,711</u>
Total Liabilities	<u>\$ 2,302,153</u>	<u>\$ 2,065,549</u>
NET POSITION		
Net Investment in Capital Assets	\$ 1,770,454	\$ 1,854,647
Restricted for Debt Service	257,888	258,738
Unrestricted	243,195	312,945
Total Net Position	<u>\$ 2,271,537</u>	<u>\$ 2,426,330</u>

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 636,820	\$ 690,514
Bulk Water Charges	216	124
Sewer Billing Charges	1,200	1,200
Hydrant Rental Charges	1,548	1,548
Total Charges for Services	<u>\$ 639,784</u>	<u>\$ 693,386</u>
Other Charges and Miscellaneous:		
Connect, Reconnect and Disconnect Charges	\$ 13,980	\$ 14,505
Forfeited Discounts	16,798	14,520
Miscellaneous	9,117	9,042
Total Other Charges and Miscellaneous	<u>\$ 39,895</u>	<u>\$ 38,067</u>
Total Operating Revenues	<u>\$ 679,679</u>	<u>\$ 731,453</u>
Operating Expenses:		
Administrative Salaries	\$ 66,108	\$ 65,000
Accounting and Collecting Labor	56,615	55,897
Chemicals	2,875	6,225
Commissioner Fees	18,000	18,000
Contractual Service - Sampling	4,718	4,482
Dues	500	325
Employee Benefits	32,389	31,368
Insurance	17,387	17,271
Maintenance of Mains	15,959	32,078
Miscellaneous	6,082	5,099
Office Supplies and Expense	43,764	46,914
Operating Labor	93,146	95,876
Other Interest Expense	18	23
Payroll Taxes	17,303	17,852
Professional Services	16,190	13,933
Regulatory Fees	1,431	1,380
Rental of Equipment	-	332
Retirement Expense	137,588	33,432
Transportation Expense	12,954	7,889
Utilities	43,325	46,780
Depreciation Expense	192,140	194,400
Total Operating Expenses	<u>\$ 778,492</u>	<u>\$ 694,556</u>
Net Operating Income	<u>\$ (98,813)</u>	<u>\$ 36,897</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 1,394	\$ 1,221
Interest Expense	(77,717)	(79,097)
Gain (Loss) from Sale of Assets	8,223	-
Total Nonoperating Revenues (Expense)	<u>\$ (68,100)</u>	<u>\$ (77,876)</u>
Net Income Before Contributions	<u>\$ (166,913)</u>	<u>\$ (40,979)</u>
Capital Contributions	<u>12,120</u>	<u>12,926</u>
Net Income	<u>\$ (154,793)</u>	<u>\$ (28,053)</u>
Net Position--Beginning of Year	<u>2,426,330</u>	<u>2,454,383</u>
Net Position--End of Year	<u><u>\$ 2,271,537</u></u>	<u><u>\$ 2,426,330</u></u>

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 684,200	\$ 725,504
Payments to Suppliers	(12,824)	(41,240)
Payments to Employees	(233,527)	(230,998)
Other Payments	(233,533)	(219,439)
Net Cash Provided (Used) by Operating Activities	<u>\$ 204,316</u>	<u>\$ 233,827</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 8,691	\$ 9,450
Sale of Capital Assets	\$ 8,223	-
Purchase of Capital Assets	(72,240)	(72,471)
Principal Paid on Capital Debt	(35,707)	(37,498)
Interest Paid on Capital Debt	(80,133)	(78,442)
Proceeds Build America Bonds Interest Reimbursement	3,429	3,476
Related Financing Activities	<u>\$ (167,737)</u>	<u>\$ (175,485)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (735)	\$ (728)
Interest Received	1,394	1,221
Net Cash Provided (Used) by Investing Activities	<u>\$ 659</u>	<u>\$ 493</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 37,238	\$ 58,835
Balances-Beginning of the Year	395,440	336,605
Balances-End of the Year	<u>\$ 432,678</u>	<u>\$ 395,440</u>

	Balances Per December 31, 2016 Statement of Net Position	Balances Per December 31, 2016 Statement of Cash Flows
Cash	\$ 228,077	\$ 228,077
Restricted Cash	204,601	204,601
Restricted Time Deposits	98,165	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 530,843</u>	<u>\$ 432,678</u>
	Balances Per December 31, 2015 Statement of Net Position	Balances Per December 31, 2015 Statement of Cash Flows
Cash	\$ 190,278	\$ 190,278
Restricted Cash	205,162	205,162
Restricted Time Deposits	97,430	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 492,870</u>	<u>\$ 395,440</u>

(Continued)

TRIMBLE COUNTY WATER DISTRICT #1
STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (98,813)	\$ 36,897
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	192,140	194,400
Pension Expense	103,677	9,302
Change in Assets and Liabilities:		
Receivables, Net	(786)	(3,172)
Other Receivables	5,415	(2,905)
Inventories	(1,169)	(3,028)
Prepaid Expenses	(714)	1,952
Accounts Payables	5,018	(8,086)
Accrued Expenses	(683)	8,378
Customer Meter Deposits Payable	231	89
Net Cash Provided by Operating Activities	<u>\$ 204,316</u>	<u>\$ 233,827</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2016 and 2015, Trimble County Water District #1 had no outstanding obligations associated with capital improvements.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Description of entity: Trimble County Water District #1 is a rural water company serving approximately 1,400 customers in Trimble County, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water district was formed under the laws of the above-mentioned county through its Fiscal Court and began operations in March, 1956.

In evaluating how to define Trimble County Water District #1 for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

Debt Issuance Costs: Debt issuance costs are expensed as incurred.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Structures & Improvements	15-40 years
- Distribution System	33 years
- Wells	33 years
- Machinery & Equipment	5-33 years

Inventory: Inventories are stated at latest cost.

Compensated absences: See Note 9 for the District's policy on vacation and sick pay.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS fiduciary net position have been determined on the same basis as they are reported by CERS.

Deferred Outflows of Resources and Deferred Inflows of Resources:

Deferred outflows of resources and deferred inflows of resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

Income taxes: Trimble County Water District #1 is not subject to income taxes.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues, in the statement of revenues, expenses and changes in fund net position. Tap on fees of \$8,691 and \$9,450 were received by the District for the years ended December 31, 2016 and 2015, respectively. Build America Bond interest reimbursement of \$3,429 and \$3,476 was received by the District during the years ended December 31, 2016 and 2015, respectively.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, Trimble County Water District #1 considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original RECD bond issue. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, the monthly transfer to be made into the account for the 2009 and 2010 Bond Issues is as follows:

$$\begin{array}{rcl}
 & \text{one sixth (1/6) of the next semiannual interest payment} & \\
 + & \text{one twelfth (1/12) of the next annual principal payment} & \\
 = & \text{monthly transfer} &
 \end{array}$$

Transfers sufficient to meet the annual obligation outstanding on the issues were made timely during the years ended December 31, 2016 and 2015.

Upon the issuance of the original 1992 Rural Development bonds, a Depreciation Account was established to provide funds for extraordinary repairs and extensions to the system and/or make up any deficiency in the Bond and Interest Sinking Account. After monthly deposits are made into the Bond and Interest Account, monthly transfers are required to be made to the Depreciation Account. Subsequent issues ratified the requirements set forth in the 1992 issue. Under it and subsequent issues, the following transfers were established and continue in effect:

Under the original 1992 issue a monthly transfer of \$315 was required until \$37,800 was accumulated in the account. Under the 2000 issue, an additional monthly transfer of \$275 was required until all the then outstanding bonds were retired [all of those issues have been retired]. Under the 2009 issue, an additional monthly transfer of \$570 was required until \$68,400 was accumulated in the account. At year end the account was fully funded.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities, including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2016 and 2015, in accordance with the District's policy, \$414,484 and \$418,702 respectively, of the District's deposits were covered by federal depository insurance and \$69,723 and \$86,216 respectively, were collateralized by securities held by the pledging financial institution's agent in the District's name. At December 31, 2016 and 2015, \$70,579 and \$13,087 of the District's deposits were unsecured and uncollateralized.

At December 31, 2016 and 2015, the District's deposits were as follows:

December 31, 2016

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ -	\$ -
Time/Savings Deposits	554,786	530,248
Total Deposits	<u>\$ 554,786</u>	<u>\$ 530,248</u>

December 31, 2015

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ -	\$ -
Time/Savings Deposits	518,005	492,275
Total Deposits	<u>\$ 518,005</u>	<u>\$ 492,275</u>

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

Reconciliation to Statement of Net Position:

	December 31, 2016	December 31, 2015
Unrestricted Cash	\$ 228,077	\$ 190,278
Restricted Cash, Including Time Deposits	302,766	302,592
Less: Cash on Hand	(595)	(595)
	<u>\$ 530,248</u>	<u>\$ 492,275</u>

NOTE 4 – RESTRICTED ASSETS

Restricted assets consist of the following:

	December 31, 2016	December 31, 2015
Cash, Including Time Deposits	\$ 141,210	\$ 145,073
Bond and Interest Sinking Account	116,638	113,625
Depreciation Account	44,918	43,894
Customer Deposits	<u>\$ 302,766</u>	<u>\$ 302,592</u>
Total Restricted Cash, Including Time Deposits		
Interest Receivable	<u>\$ 40</u>	<u>\$ 40</u>

NOTE 5 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Deposits received from customers are held in an interest bearing account (which is included in the financial statements as restricted cash). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid annually and when the deposit is refunded.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Land & Land Rights	\$ 23,957	\$ -	\$ -	\$ 23,957
Structures & Improvements	543,325	6,670	-	549,995
Distribution System	5,250,776	44,080	-	5,294,856
Wells	144,976	-	-	144,976
Machinery & Equipment	1,277,675	18,290	(12,800)	1,283,165
Construction in Process	-	3,200	-	3,200
Totals at Historical Cost	<u>\$ 7,240,709</u>	<u>\$ 72,240</u>	<u>\$ (12,800)</u>	<u>\$ 7,300,149</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (187,217)	\$ (14,771)	\$ -	\$ (201,988)
Distribution System	(2,355,718)	(132,394)	-	(2,488,112)
Wells	(80,942)	(3,874)	-	(84,816)
Machinery & Equipment	(854,932)	(41,101)	12,800	(883,233)
Total Accumulated Depreciation	<u>\$ (3,478,809)</u>	<u>\$ (192,140)</u>	<u>\$ 12,800</u>	<u>\$ (3,658,149)</u>
Capital Assets, Net	<u>\$ 3,761,900</u>	<u>\$ (119,900)</u>	<u>\$ -</u>	<u>\$ 3,642,000</u>

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Land & Land Rights	\$ 23,957	\$ -	\$ -	\$ 23,957
Structures & Improvements	543,325	-	-	543,325
Distribution System	5,105,715	145,061	-	5,250,776
Wells	144,976	-	-	144,976
Machinery & Equipment	1,277,675	-	-	1,277,675
Construction in Process	88,695	-	88,695	-
Totals at Historical Cost	<u>\$ 7,184,343</u>	<u>\$ 145,061</u>	<u>\$ 88,695</u>	<u>\$ 7,240,709</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (172,488)	\$ (14,729)	\$ -	\$ (187,217)
Distribution System	(2,222,385)	(133,333)	-	(2,355,718)
Wells	(77,068)	(3,874)	-	(80,942)
Machinery & Equipment	(812,468)	(42,464)	-	(854,932)
Total Accumulated Depreciation	<u>\$ (3,284,409)</u>	<u>\$ (194,400)</u>	<u>\$ -</u>	<u>\$ (3,478,809)</u>
Capital Assets, Net	<u>\$ 3,899,934</u>	<u>\$ (49,339)</u>	<u>\$ (88,695)</u>	<u>\$ 3,761,900</u>

Included under the District's Plant Assets at December 31, 2016 and 2015, was \$1,582,043 and \$1,357,976 of fully depreciated assets, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Depreciation expense aggregated \$192,140 and \$194,400 in 2016 and 2015, respectively.

NOTE 7 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$11,758 and \$11,126 at December 31, 2016 and 2015, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2016 and 2015, long-term debt payable consisted of the following:

Bonds Payable:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
RECD Revenue Bonds of 2009, original issue amount of \$931,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is July 1, 2047.	\$ 849,500	\$ 862,700
RECD Revenue Bonds of 2010 (Build America Bonds – Direct Payment), original issue amount of \$301,000 secured by water revenues. Interest is charged at the rate of 3.75% per annum. Final maturity is July 1, 2048.	<u>278,500</u>	<u>282,500</u>
Total Bonds Payable	<u>\$ 1,128,000</u>	<u>\$ 1,145,200</u>
Current Portion	\$ 18,200	\$ 17,200
Noncurrent Portion	<u>1,109,800</u>	<u>1,128,000</u>
Total Bonds Payable	<u>\$ 1,128,000</u>	<u>\$ 1,145,200</u>

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 8 – LONG-TERM DEBT (Continued)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Note Payable:		
The Farmers Bank of Milton fixed rate mortgage agreement dated October 31, 2013. Original issue amount of \$804,000. Interest is charged at the rate of 4.05% per annum, secured by a real estate mortgage on properties at 34 East Morgan Drive, Bedford, Kentucky and 610 Highway 421N, Bedford, Kentucky. Annual payments of \$51,738. Final maturity is October 31, 2038.		
	\$ 743,546	\$ 762,053
Current Portion	\$ 21,601	\$ 20,761
Noncurrent Portion	721,945	741,292
Total Note Payable	\$ 743,546	\$ 762,053
Accrued Compensated Absences:		
Current Accrued Compensated Absences (All Current)	\$ 4,636	\$ 4,778

Revenue Bonds of 2009 – RECD

At original issue, \$931,000 of RECD bonds were outstanding at the interest rate of 4.25% per annum with maturity dates ranging from 2010-2047. On December 31, 2016, \$849,500 of bonds were outstanding on this issue. On December 31, 2015, \$862,700 of bonds were outstanding on this issue.

Revenue Bonds of 2010 – Build America Bonds – RECD U.S. Department of Agriculture

On October 21, 2010, Trimble County Water District #1 issued \$301,000 taxable Waterworks Revenue Bonds, Series 2010 with an interest rate of 3.75%. The proceeds were used to finance the water main steam crossing replacement project which began in 2010. The first interest payment was due January 1, 2011. The first principal payment was due July 1, 2011. The final payment will be due July 1, 2048. These bonds are taxable Build America Bonds. As such, the District will receive annual federal credit payments toward the debt service of approximately 35% of each interest payment due. The credit will amount to \$94,277 over the life of the issue. On December 31, 2016, \$278,500 of bonds were outstanding on this issue. On December 31, 2015, \$282,500 of bonds were outstanding on this issue.

Note Payable – The Farmers Bank of Milton

On October 31, 2013, Trimble County Water District #1 entered into a note payable agreement with The Farmers Bank of Milton with an interest rate of 4.05% to refinance a portion of its outstanding debt through an advance refunding of the following RECD revenue bond issues outstanding: Series 1992, \$321,320; Series 1997, \$49,400; and Series 2000, \$477,600. The 1992 Series was originally issued at 5.625%. The 1997 Series and 2000 Series were originally issued at 5.00%. The refunded bonds were redeemed on October 31, 2013 at a price equal to the principal amount of the refunded bonds outstanding and accrued interest at that date, by the issuance of the above note and payment from District funds of \$61,582. Debt Issuance costs of \$1,912 were incurred.

As a result of the advance refunding, the District reduced its total debt service requirements by \$114,068, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$83,797. Final maturity on the note is October 31, 2038.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2016 and 2015.

December 31, 2016

	Balance at January 1, 2016	Additions	Repayments	Balance at December 31, 2016	Current Portion
Bonds Payable	\$ 1,145,200	\$ -	\$ 17,200	\$ 1,128,000	\$ 18,200
Note Payable	762,053	-	18,507	743,546	21,601
Accrued Compensated Absences	4,778	-	142	4,636	4,636
Total Long-Term Debt	<u>\$ 1,912,031</u>	<u>\$ -</u>	<u>\$ 35,849</u>	<u>\$ 1,876,182</u>	<u>\$ 44,437</u>

December 31, 2015

	Balance at January 1, 2015	Additions	Repayments	Balance at December 31, 2015	Current Portion
Bonds Payable	\$ 1,161,800	\$ -	\$ 16,600	\$ 1,145,200	\$ 17,200
Note Payable	782,951	-	20,898	762,053	20,761
Accrued Compensated Absences	2,200	2,578	-	4,778	4,778
Total Long-Term Debt	<u>\$ 1,946,951</u>	<u>\$ 2,578</u>	<u>\$ 37,498</u>	<u>\$ 1,912,031</u>	<u>\$ 42,739</u>

The annual requirements for all long-term debt outstanding at December 31, 2016, are as follows:

Due	Bonds	Bond Interest	Federal Credit Interest Payment	Note Payable	Note Payable Interest	Total Principal & Interest
2017	\$ 18,200	\$ 42,602	\$ 3,655	\$ 21,601	\$ 30,136	\$ 116,194
2018	18,800	41,897	3,596	22,476	29,262	116,031
2019	19,400	41,166	3,537	23,387	28,351	115,841
2020	20,500	40,411	3,478	24,334	27,404	116,127
2021	21,200	39,615	3,413	25,319	26,419	115,966
2022-2026	120,400	184,945	16,007	142,834	115,856	580,042
2027-2031	148,800	159,438	13,966	174,198	84,492	580,894
2032-2036	182,800	127,994	11,439	212,448	46,242	580,923
2037-2041	225,100	89,285	8,322	96,949	5,963	425,619
2042-2046	276,900	41,696	4,528	-	-	323,124
2047-2048	75,900	2,028	548	-	-	78,476
	<u>\$ 1,128,000</u>	<u>\$ 811,077</u>	<u>\$ 72,489</u>	<u>\$ 743,546</u>	<u>\$ 394,125</u>	<u>\$ 3,149,237</u>

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all long-term debt outstanding at December 31, 2015, are as follows:

Due	Bonds	Bond Interest	Federal Credit Interest Payment	Note Payable	Note Payable Interest	Total Principal & Interest
2016	\$ 17,200	\$ 43,270	\$ 3,708	\$ 20,761	\$ 30,977	\$ 115,916
2017	18,200	42,602	3,655	21,601	30,136	116,194
2018	18,800	41,897	3,596	22,476	29,262	116,031
2019	19,400	41,166	3,537	23,387	28,351	115,841
2020	20,500	40,411	3,478	24,334	27,404	116,127
2021-2025	115,700	189,443	16,368	137,275	121,415	580,201
2026-2030	142,600	164,981	14,413	167,458	91,272	580,724
2031-2035	175,200	134,807	11,983	204,179	54,511	580,680
2036-2040	216,100	97,685	8,998	140,582	11,773	475,138
2040-2045	265,200	52,018	5,349	-	-	322,567
2045-2048	136,300	6,067	1,112	-	-	143,479
	<u>\$ 1,145,200</u>	<u>\$ 854,347</u>	<u>\$ 76,197</u>	<u>\$ 762,053</u>	<u>\$ 425,101</u>	<u>\$ 3,262,898</u>

NOTE 9 – COMPENSATED ABSENCES

Vacation and sick pay are considered an expense in the year incurred. Vacation leave may be accumulated and carried forward from one calendar year to the next, not to exceed 240 hours. Upon termination, the employee is compensated for any accrued but unused vacation. At December 31, 2016, a liability for accrued vacation was recorded in the amount of \$4,636. At December 31, 2015, a liability for accrued vacation was recorded in the amount of \$4,778. Full time employees accumulate three (3) sick days per year. Sick leave may not be accumulated indefinitely. The maximum carryover of sick leave from (1) one year to the next shall not exceed (6) six days. Upon termination, no portion of accrued and unused sick leave is payable. The District had an unrecorded sick pay liability to its employees of \$1,576 and \$1,551 at December 31, 2016 and 2015, respectively. The estimated liabilities include required salary related payments.

NOTE 10 – FUND EQUITY- RESTRICTED NET POSITION

Restricted for Debt Service:

RECD Revenue Bonds of 2009 & 2010

Cash	\$	257,848	\$	258,698
Add: Accrued Interest Receivable		40		40
Less: Accrued Interest Payable		-		-
Total Restricted for Debt Service	<u>\$</u>	<u>257,888</u>	<u>\$</u>	<u>258,738</u>

NOTE 11 – BAD DEBT EXPENSE

At December 31, 2016 and 2015, water revenue charges have been netted with an estimated bad debt expense of \$2,612 and \$5,746, respectively.

NOTE 12 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2016 and 2015 was \$77,735 and \$79,120, respectively. No interest expense was capitalized in 2016 or 2015.

NOTE 13 – WHOLESALE WATER RATES

Trimble County Water District #1 supplies water for resale to the West Carroll Water District. The wholesale rate charged to West Carroll Water District is as follows: \$205.50 minimum for the first 50,000 gallons plus an additional \$3.60 per 1,000 gallons over the first 50,000 gallons. These rates became effective with the January, 2009 billing. There is no minimum purchase amount.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 14 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of commercial insurance.

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the District may participate in the System.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2016, may be obtained from <https://kyret.ky.gov/Audit%20Reports/Audit%20Report%20June%2030,%202015-2016.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2016 may be obtained from <https://kyret.ky.gov/Audited%20Report%20Links/KRS%206-30-16%20Proportionate%20Share%20Audit%20Report.pdf>.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Basis of Accounting – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

Method Used to Value Investments – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions - For the fiscal years ended June 30, 2016 and 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2016 and 2015, participating employers contributed 17.06% and 17.67%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2016 and 2015, were 17.06% and 17.67%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2015, the actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 years (2016); 28 years (2015)
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

There were no changes of benefit terms during the years ended June 30, 2016 and 2015.

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Cash Equivalent Long Term Expected Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
Total	100%	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 27 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year. No update procedures were used to determine the total pension liability as of June 30, 2015.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The long term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the years ended June 30, 2016 and 2015], calculated using the discount rate of 7.5%, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

<u>As of June 30, 2016</u>	<u>1% Decrease [6.5%]</u>	<u>Current Discount [7.5%]</u>	<u>1% Increase [8.5%]</u>
Net Pension Liability	\$ 6,135,625,606	\$ 4,923,618,237	\$ 3,884,686,628
District's Proportionate Share	441,758	354,495	279,693

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
(Continued)

As of June 30, 2015	1% Decrease [6.5%]	Current Discount [7.5%]	1% Increase [8.5%]
Net Pension Liability	\$ 5,488,878,000	\$ 4,299,525,565	\$ 3,280,950,000
District's Proportionate Share	107,637	84,334	64,339

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension

At December 31, 2016, and 2015 the District reported a liability of \$354,495 and \$84,334, respectively for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2016, and 2015 and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, and 2015 the District's proportion was 0.00720 and 0.00196 percent, respectively, which is an increase of .00524% for the year ended June 30, 2016. The District's first year of participation in the County Employee's Retirement System was 2015.

The District's total payroll for the fiscal year ended December 31, 2016 was \$236,396. Contributions to CERS were based on \$178,144 (eligible gross wages). The total employer contributions for the year ended December 31, 2016 were \$31,870.

The District's total payroll for the fiscal year ended December 31, 2015, was \$234,147. Contributions to CERS were based on \$130,666 (eligible gross wages). The total employer pension contributions for the year ended December 31, 2015, were \$22,571.

All contributions were made as required during these years.

The District's contribution for the County Employees' Retirement System's year(s) ended December 31, 2016, and 2015 was 0.00720 and 0.00196 percent, respectively, of the System's total contribution requirements for all employers.

For the year ended December 31, 2016, and December 31, 2015, the District recognized pension expense of \$137,588 and \$33,432, respectively. At December 31, 2016 and 2015 the District reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	December 31, 2016		December 31, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 1,548	\$ -	\$ 701	\$ -
Change in Assumptions	18,779	-	8,504	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	170,810	-	50,587	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	33,326	-	756	-
District Contributions Made Subsequent to the NPL Measurement Date	17,053	-	14,484	-
Total	<u>\$ 241,516</u>	<u>\$ -</u>	<u>\$ 75,032</u>	<u>\$ -</u>

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 15 – COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN
(Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)

\$17,053 and \$14,484 reported as deferred outflows of resources related to pensions arising from District contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended December 31, 2017 and 2016. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

		Increase (Decrease) to Pension Expense
Year Ended December 31, 2016:		
2017	\$	100,242
2018		83,772
2019		32,260
2020		8,189
	\$	<u>224,463</u>
		Increase (Decrease) to Pension Expense
Year Ended December 31, 2015:		
2016	\$	24,010
2017		24,010
2018		12,339
2019		189
	\$	<u>60,548</u>

Payable to the Pension Plan

At December 31, 2016 and 2015, the District reported a payable of \$3,689 and \$4,467, respectively for the outstanding amount contributions required for the years then ended. These amounts represent the employee withholding and employer match for the last month of the years then ended. The payable includes both pension and insurance contributions.

Governmental 401(a) Plan

For those employees choosing to reject participation in the Kentucky Retirement System (CERS), the District has adopted a 401(a) program with Nationwide Financial Services, Inc. Under the plan, the District will contribute five percent (5%) of the participant's eligible compensation. Employees may contribute up to Internal Revenue Service statutory limits per year. Employees are vested immediately in their account including employer contributions. 2016 and 2015 contributions to the 401(a) plan were based on \$39,512 and \$35,792 (eligible gross wages), respectively. The District contributed \$1,972 and \$1,790 to the plan during the years ending December 31, 2016 and 2015, respectively.

NOTE 16 – ECONOMIC DEPENDENCY

Trimble County Water District No. 1 provides water services to residential, commercial and industrial customers. It should be noted that 2.1% and 4.30% of total charges for services was received from Louisville Gas & Electric Company for the years ended December 31, 2016 and 2015, respectively.

TRIMBLE COUNTY WATER DISTRICT #1
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 17 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The District is planning a multi-faceted project that will include cleaning and repair of storage facilities as well as other needs of the District with anticipated funding from Rural Development for approximately \$1,174,000. The District anticipates a rate increase to service the debt.

NOTE 18 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 76, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The District is evaluating the requirements of this statement.

TRIMBLE COUNTY WATER DISTRICT #1

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
County Employees Retirement System**

Two Fiscal Years Ended

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.00720%	0.001961%
District's proportionate share of the net pension liability (asset)	\$ 354,495	\$ 84,334
District's covered-employee payroll	\$ 178,144	\$ 130,666
District's proportionate share of the net pension liability (asset) as a percentage of its of its covered- employee payroll	198.99%	64.54%
Plan fiduciary net position as a percentage of the total pension liability	55.5%	59.97%

*Calculations based on June 30, 2016 and 2015, County Employees Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer. District payroll is reported for its' covered calendar years ended December 31, 2016 and 2015. The District began participation effective April 1, 2015.

GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF DISTRICT CONTRIBUTIONS

County Employees Retirement System

Fiscal Years Ended

	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 31,870	\$ 22,571
Contributions in relation to the contractually required contributions	31,870	22,571
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 178,144	\$ 130,666
Contributions as a percentage of covered-employee payroll	17.89%	17.27%

The District began participation April 1, 2015. GASB 68 requires the District to present the above information for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners of the
Trimble County Water District #1
Bedford, KY 40006

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Trimble County Water District #1 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Trimble County Water District #1's basic financial statements and have issued our report thereon dated June 27, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Trimble County Water District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trimble County Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Trimble County Water District #1's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (Items 2016-001 and 2016-002).

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Trimble County Water District #1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Item 2016-003.

TRIMBLE COUNTY WATER DISTRICT #1'S RESPONSE TO FINDINGS

Trimble County Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Trimble County Water District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raisor, Zapp & Woods, P.S.C.

RAISOR, ZAPP & WOODS P.S.C.
Certified Public Accountants
Carrollton, Kentucky

June 27, 2017

**TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2016**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Trimble County Water District #1 were prepared in accordance with GAAP.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Items 2016-001 and 2016-002 were reported as material weaknesses.
3. One instance of noncompliance material to the financial statements of Trimble County Water District #1, which is required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2016-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative functions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2015 as Item 2015-001.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

RESPONSE:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel.

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
December 31, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2016-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2015 as 2015-002.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor's assistance to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

2016-003 VIOLATION OF KRS 91a.060 AND KRS 66.480

CONDITION

The District failed to adequately insure and fully collateralize its deposits as required by Kentucky Revised Statutes.

CRITERIA

Procedures should be in place to provide reasonable assurance that deposits are properly insured or fully collateralized.

TRIMBLE COUNTY WATER DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
December 31, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

COMPLIANCE AND OTHER MATTERS (Continued)

2016-003 VIOLATION OF KRS 91a.060 AND KRS 66.480 (Continued)

CAUSE

Deposits were not reviewed at regular intervals to insure proper collateral amounts.

EFFECT

Because of the lack of collateral, District deposits were not insured and/or collateralized by \$70,579.

RECOMMENDATION

Procedures should be implemented to verify that adequate collateral has been pledged to cover all deposits.

RESPONSE

We concur with the recommendation. Such a procedure will be implemented immediately.